

Housing Privatization Briefing

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Agenda

- DOD Program Overview
- Challenge
- Goal
- Authority under the Act
- Scope of the Problem
- Process
- Utility Service
- Web Sites
- Questions



DOD Program Overview

- Military Housing Privatization Initiative – MHPI
- 1996 Defense Authorization Act
- Title 10, Subtitle A, Part IV, Chapter 169, Subchapter IV
- Alternative Authority for Acquisition and Improvement of Military Housing
- Address Two Problems
 - Poor condition of housing
 - Shortage of affordable private housing



Challenge

- Quality of housing has been in decline for three decades
- Deployments and family separations have lengthened
- Out-of-pocket expenses for off-base housing has increased
- Demands on military personnel and their families has increased

Challenge

- DoD Quality of Life Task Force report says:
 - “The most dedicated service members will leave the service”
 - “The force will collapse”
 - “Readiness and Morale are in Jeopardy”



Goal

- Use private capital to leverage federal dollars
- Make efficient use of limited resources
- Use private sector approaches to build and renovate housing at a lower cost to taxpayers



Authority Under the Act

- Loan and rental guarantees
- Convey/lease existing property
- Differential lease payments
- Investment: Limited Partnership and Stock/Bond ownership
- Direct loans

Scope of the Problem

- Military owns 300,000 family housing units
- 60% need renovation – 180,000 houses
- Requires \$16 billion and 20 years to correct through traditional military construction approaches
- ~\$90,000 per house

Process

- Different for each branch of the DoD
- Basic approach
 - Identify qualified bidders based on specific evaluation factors
 - Compete qualified firms on specific projects
 - Pick a winner and negotiate
 - Selected Offeror – SO – Contractor



Process - Funding

- Basic Allowance for Housing – BAH
- Divided between rent and utility expense
 - BAH – fixed amount based on rank, etc.
 - Utility expense is estimated - 110%
 - BAH less the utility expense = rent
- Rent is used to fund renovation and construction
 - pay off the loan

Utility Service

- Housing areas are generally served by government owned utility systems behind a “master meter” for the Base
- Government, in some cases, is unaware of utility service issues
- Developer may or may not be aware of utility issues
- Own and manage real estate not utilities

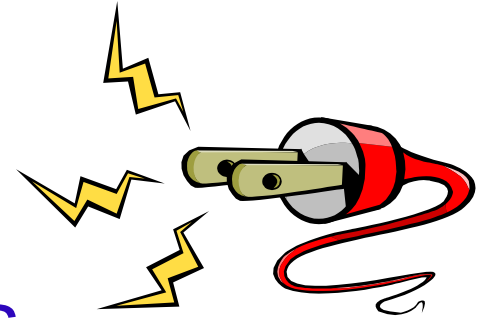
Utility Service Issues

- Reliability
 - No requirements, no oversight
- Safety
 - Not subject to code inspection
- State and local law
- Jurisdictional regulations



Reliability & Safety

- Improper fusing
- Radial feeds versus loop feed
- Transformers inside garages
- Insufficient clearance from lines
- Underground wiring not properly installed
- Gas lines run with PVC pipe
- Gas regulators in enclosed spaces



Utility Service Requirements

- No consistency in the process
- Identified 2 types with 8 variations
- Contractor not involved in the utility transaction
 - DoD retains ownership, serves the home, may or may not bill the tenant
- Generally not a problem

Utility Service Requirements

- Contractor involved in utility transaction
 - DoD owns the system, the contractor is billed for commodity by the Base, may or may not bill tenant
 - Contractor owns system, are billed for commodity by the Base, may or may not bill tenant
 - System ownership transfers to the local utility, utility makes the sale to the contractor or the tenants

Utility Transaction Issues

- In some cases the DoD has chosen to ignore local law, jurisdictional regulations and specific contractual agreements with their utility provider
- Most common problem is violation of the “Sale for Resale” provision of tariffs

Solicitation Clause – Offutt AFB

- The Government intends to transfer ownership of the ... utility systems ...to the SO. The SO may convey the ... systems... to utility companies or municipalities that can provide safe and reliable utility service ... in accordance with existing state and local statutes and regulations. It is the Government's preference that current ... suppliers will own, operate and maintain the ... systems through conveyance arrangements with the SO.

Web Sites

- www.defenselink.mil/acq/installation/hrso
- www4.law.cornell.edu/uscode/10/stApIVch169schIV.html
- www.rci.army.mil/
- Army Program Office – 703-692-9898
- www.afcee.brooks.af.mil/dc/dcp/news/
- www.ppv.hsgnavfac.com/

Closing

- Do not assume that the process is being managed to comply with contracts, State laws and jurisdictional regulations
- More challenging than utility privatization
- Questions?

